RESEARCH HIGHLIGHTS

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THE IMPACT OF MUNICIPAL USER FEES ON SECONDARY SUITES

Introduction

This research was undertaken with a grant under the CMHC External Research Program (ERP). ERP offers funding assistance to help Canadian researchers carry out research investigations on topics related to housing in priority areas identified by CMHC. However, the research is entirely the work of an external researcher and does not necessarily reflect the views of CMHC.

The report focuses on the debate surrounding the imposition of user fees on secondary suites in single residential dwellings. The current system of assessing user fees varies widely—each municipality determines how fees are calculated and the degree to which they reflect service consumption. Homeowners of residential dwellings with secondary suites have opposed user fees based on their perception that the fees are not equitable or do not accurately reflect service usage. Tenants groups have also contested user fees based on their assertion that user fees negatively impact housing affordability for the primary occupants of secondary suites—individuals and families with lower than average incomes.

Proponents of municipal user fees for services provided to secondary suites in single residential dwellings, (resident groups as well as municipal governments), maintain that secondary suites impose a higher cost burden on municipal infrastructure, justifying the application of user fees. This study investigates the validity and rationale for user fees applied to single family homes containing secondary suites, and examines the methodologies for assessing and implementing user fees.

Objectives and Methodology

The report findings were based on; a literature review; a case study of three British Columbia municipalities (an urban core, Victoria, an inner suburb, North Vancouver, and, in an outer suburb, Abbotsford), and; key informant interviews with municipal officials. In each municipality, a single representative neighbourhood was selected for an in-depth household survey.

A combination of different approaches were used to determine the impacts of municipal services on secondary suites: demographic analysis; metering of consumption; and, unit charges for capital, and operating cost. The analysis of the impacts of municipal services on secondary suites in established neighbourhoods is based on a review of historical demographic data and, a comparison of municipal service consumption by homes with and without secondary suites.

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Findings

It was anticipated that homes with secondary suites would consume twice the amount of municipal services than homes without secondary suites. The study sampling indicated this was not the case. On average, the secondary suite consumed less than one and half times the amount of municipal services versus a single home.

Background

Since the 1960s there has been a long-term trend in Canada towards a decline in neighbourhood population density, attributable to a number of factors: the aging of the population; a reduction in the number of children in young families; and, the shrinking of household size as families mature and children depart. While the demand for housing units generally continues to grow, the average number of people per household has steadily declined, resulting in significant changes in housing need and housing demand. As the traditional middle-class family becomes a less dominant factor in the housing market, the market must respond to the needs of smaller, and often, less affluent household; single-person households, single-parent families, childless couples, elderly and retired households, and shared-accommodation households.

Benefits of Secondary Suites

In terms of municipal policy, there are strong arguments in favour of encouraging secondary suites as a means to respond to the changes in housing need. Secondary suites are a cost-effective mechanism for increasing the supply of affordable rental housing without necessitating substantial local government investment. In areas where population is declining, secondary suites can result in a more efficient use of existing housing stock, land and municipal services. In comparison to more costly alternatives, such as the new construction of apartment buildings, secondary suites provide a gradual means to achieve housing densification.

For homeowners, the additional income from secondary suites offers significant advantages:

- encourages and enables homeowners to invest in their homes, contributing to the maintenance and revitalization of existing neighbourhoods,
- subsidizes mortgage and maintenance costs for first-time buyers,
- assists elderly homeowners to remain in their homes with greater security and potential support with home maintenance.

At the community level, secondary suites also offer multiple benefits;

- increasing home value which generates higher property tax revenues and a reduction in the average homeowner municipal tax
- supporting the environment by encouraging more compact communities, land conservation, and energy efficiency with respect to transportation and household operation
- creating more adaptable communities better able to meet the housing and social needs of different demographic groups throughout the life cycle.

Municipal Impacts of Secondary Suites

Despite the obvious benefits, there are a number of negative perceptions surrounding the municipal impacts of secondary suites. Communities which believe that homes with secondary suites do not pay their fair share of property taxes oppose secondary suites on a number of grounds—overcrowding of schools and neighbourhoods, increased parking problems, and higher use of water, sewer, and garbage collection services. The study found these perceptions largely unfounded.

The development of secondary suites increases with rising mortgage rates and other escalating home ownership costs. However, the majority of homeowners have no intention of converting their homes to accommodate secondary suites. Surveys have shown that the proportion of homes with secondary suites is minimal, ranging from 6 - 25 per cent.

In terms of the impact on municipal servicing and costs, the report concluded that secondary suites do not have an overall significant negative impact. Given the trend to smaller households, secondary suites generally do not place an extra burden on municipal infrastructure or services beyond the original design capacity. Conversely, by helping to reduce the decline in neighbourhood density, secondary suites can absorb underutilized capacity and allow for the more efficient provision of services such as water, sewer and garbage collection and, the more effective use of resources.

In terms of infrastructure services, secondary suites tend not to overtax services but serve to offset decline in school population. The impact on parking was found to be a negligible impact on parking—people who live in secondary suites tend to own fewer cars on average than people who live in single detached houses.

While the impacts of secondary suites varies according to the type of municipality, lower in the urban core municipality (Victoria), higher in the outer suburb (Abbotsford), and somewhere in between in the inner suburb (North Vancouver), overall consumption was found to be slightly higher. Surveyed homes with secondary suites were found to consume 35-63 per cent higher water and sewer services than homes without suites; to produce 36-42 per cent more garbage, and; to have 27-40 per cent higher car ownership rates, accommodated on site.

Alternative Approaches to User Fee Implementation

User fees are the fastest growing source of municipal revenue in light of current pressures to keep property taxes down. Consequently, there is a growing trend towards the application of user fees for secondary suites for services such as; water and sewer services, garbage collection and public infrastructure. The two alternative approaches for assessing user fees include; charges based solely on service usage or metered usage and set rates per dwelling unit (secondary suites are charged the same rate as single family homes irrespective of usage). Given that secondary suites tend to attract smaller families and single persons, service consumption is relatively lower, making a flat rate system for user fees somewhat discriminatory.

Depending on local policies and practical issues, substantially different approaches to user fees can be undertaken by municipalities:

1. A user pay system which is most equitable, based solely on consumption levels of water, sewer and garbage collection. Municipalities are somewhat reluctant to adopt this approach because it entails additional costs associated with installation of meters and administration.
2. Set annual fees which include service costs and an appropriate mechanism to determine average consumption levels.
3. A combination charge comprised of a per housing unit fee and user consumption. This approach completely eliminates the need to distinguish between homes with and without secondary suites by applying a base cost to all residential dwellings, including secondary suites. Consumption levels would have to be measured in order to assess costs for excess services.
4. No additional charges for secondary suites. This reflects a policy decision on the part of municipalities to utilize secondary suites as a mechanism to increase the affordable housing stock and eliminates the administrative burden of regulating user fees.
5. Extension of municipal Development Cost Charges (DCCs) for new residential land development to secondary suites to offset the infrastructure costs needed to service the new development. The decision to charge additional DCCs for secondary suites would depend on the extent to which they impact these infrastructure costs. Many factors need to be considered in determining appropriate additional DCC charges associated with secondary suites, and whether they should be treated as a single family unit or as an apartment. It was determined that this issue would require further analysis beyond the scope of this study.

Conclusion and Recommendations

The research concludes that there is no typical neighbourhood when assessing the different approaches to charging for secondary suites. It is the decision of the municipality to determine whether to implement extra charges for secondary suites, and the extent to which they wish to encourage suites as a way to meet affordable housing—the approach that makes the most sense according to local circumstances and policy priorities. If a decision is made to charge extra fees, the fee amount should be fair and reasonable, reflecting both service usage and the actual cost to the municipality.

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